



**Tecumseh, Michigan**

## **FINANCIAL STATEMENTS**

**For The Year Ended June 30, 2007**



**REHMANN ROBSON**

*Certified Public Accountants*

# TECUMSEH PUBLIC SCHOOLS

For the Year Ended June 30, 2007

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**REHMANN ROBSON**

*Certified Public Accountants*

A member of THE REHMANN GROUP



**INDEPENDENT AUDITORS' REPORT**

September 18, 2007

Board of Education  
Tecumseh Public Schools  
Tecumseh, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **TECUMSEH PUBLIC SCHOOLS**, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Tecumseh Public Schools, as of June 30, 2007, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2007 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Tecumseh Public Schools' basic financial statements. The combining and individual fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, stylized 'L' at the beginning.

## MANAGEMENT'S DISCUSSION and ANALYSIS

This section of Tecumseh Public Schools' annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2007. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

**Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Tecumseh Public Schools financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant fund – the General Fund; and all other funds presented as nonmajor funds (Special Revenue, Debt Service and Capital Projects). The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

*Management's Discussion and Analysis (MD&A)*  
*(Required Supplemental Information)*

**Basic Financial Statements**

*District-wide Financial Statements*      *Fund Financial Statements*

*Notes to the Basic Financial Statements*

*Other supplemental Information*

***Reporting the School District as a Whole – District-wide Financial Statements***

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and federal grants finance most of these activities.

### ***Reporting the School District's Most Significant Funds – fund Financial Statements***

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in reconciliation.

### ***The School District as Trustee – Reporting the School District's Fiduciary Responsibilities***

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in the funds are used for their intended purposes.

### ***The School District as a Whole***

Recall that the statement of net assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets as of June 30, 2007.

TABLE I	6/30/2007 Governmental Activities	6/30/2006 Governmental Activities
<b>Assets</b>		
Current and other assets	\$ 7,939,709	\$ 7,023,309
Capital assets - Net of accumulated depreciation	59,262,071	60,830,901
Total assets	67,201,780	67,854,210
<b>Liabilities</b>		
Accounts payable and accrued liabilities	5,763,001	3,952,943
Unearned revenue	84,341	17,172
Long-term debt:		
Due within one year	2,686,960	2,529,416
Due in more than one year	53,294,188	55,635,708
Total liabilities	61,828,490	62,135,239
<b>Net Assets</b>		
Invested in capital assets, net of related debt	4,873,733	4,509,465
Restricted for:		
Capital projects and other purposes	536,800	629,664
Unrestricted	(37,243)	579,842
Total net assets	\$ 5,373,290	\$ 5,718,971

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$5,373,290 at June 30, 2007. Capital assets, net of related debt totaling \$4,873,733 compares the original cost, less depreciation of the School District's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School district's ability to use those net assets for day-to-day operations. The remaining amount of net assets (\$37,243) was an unrestricted deficit.

The \$(37,243) in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal year 2007.



TABLE 2		6/30/2007	6/30/2006
<b>Revenue</b>		<b>Governmental</b>	<b>Governmental</b>
		<b><u>Activities</u></b>	<b><u>Activities</u></b>
Program revenue:			
Charges for services		\$ 978,611	\$ 973,199
Grants and categories		2,355,642	2,611,703
General revenue:			
Property taxes		7,128,126	6,826,441
Unrestricted state aid		20,847,449	20,057,623
Other		190,220	160,365
Total revenue		<u>31,500,048</u>	<u>30,629,331</u>
<b>Function/Program expenses</b>			
Instruction		16,706,336	15,534,416
Support services		8,905,476	8,251,422
Community services		307,474	245,141
Athletics		632,594	690,951
Food service		923,589	847,376
Transfers to other districts		-	48,979
Interest on long-term debt		2,801,430	2,936,016
Unallocated depreciation		1,568,830	1,736,612
Total Expenses		<u>31,845,729</u>	<u>30,290,913</u>
<b>Increase in Net Assets</b>		<b><u>\$ (345,681)</u></b>	<b><u>\$ 338,418</u></b>

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$31,845,729. Certain activities were partially funded from those who benefited from the programs or by other governments and organizations that subsidized certain programs with grants and categoricals. We paid for the remaining “public benefit” portion of our governmental activities with \$7,126,891 in taxes, \$20,847,449 in State Foundation Allowance, and with our other revenues, \$190,220, such as interest and general entitlements.

The School District experienced a decrease in net assets of \$345,681. The key reason for the change in net assets is the increase in expenditures.

As discussed above, the net cost shows the financial burden that was placed on the state and the School District’s taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of the School District operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

## **The School District's Funds**

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$2,416,026 which is a decrease of \$713,347 from last year's combined fund balance. The primary reason for the decrease is due to settlements on one of the expired bargaining agreements. In the General Fund, our principal operating fund, the fund balance decreased \$679,908 to \$1,681,772 which is less than the budgeted decrease of \$1,580,025 due to the State not issuing an Executive Order. The General Fund fund balance at year end is 6.5% of total expenditures and is below the minimum level (10-15%) desirable for school districts to maintain in reserve.

- Our Special Revenue Funds showed an overall decrease of \$49,549, primarily due to purchasing a new deli cart at the high school, vegetable carts for the elementary buildings, and increase in wages in the Food Service fund.
- Combined, the Debt Service Funds showed an increase in fund balance of \$59,425. Millage rates will remain at 7.2000 mills until such time that all loans due the School Bond Loan Program are repaid. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations.
- The combined Capital Projects Funds increased due to the Board of Education approval of Strategic Finance Plan 1.2 to transfer in from the General Fund \$250,000 for school improvements.

## **General Fund Budgetary Highlights**

Over the course of the year, the school District revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

- Budgeted revenues were decreased \$471,365, due to the anticipation of an Executive Order by the State of Michigan.
- Budgeted expenditures were increased primarily due to increases in salaries/wages for all employees and due to the Board of Education approval to transfer out \$250,000 to the Capital Projects Fund.

## **Capital Asset and Debt Administration**

### ***Capital Assets***

At June 30, 2007 the School District had \$69,817,783 invested in a broad range of capital assets, including land, buildings, furniture, and equipment.

	<u>2007</u>
Land	\$ 1,590,511
Buildings and improvements	68,735,017
Vehicles	286,449
Furniture and equipment	<u>796,317</u>
Total capital assets	71,408,294
Less accumulated depreciation	<u>12,146,223</u>
Net capital assets	<u><u>\$59,262,071</u></u>

### **Debt**

At the end of this year, the School District had \$50,031,723 in bonds outstanding versus \$52,231,723 in the previous year – a change of \$2,200,000. Those bonds consisted of the following:

	<u>1998</u>	<u>2000</u>	<u>1998 Durant</u>	<u>2005</u>
<u>General Obligation Bonds</u>	\$ 1,625,000	\$2,050,000	\$ 166,723	\$46,190,000

The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt of \$50,031,723 is significantly below the statutorily imposed limit.

Other obligations include employee-compensated absences and retirement incentives. We present more detailed information about our long-term liabilities in the notes to the financial statements.

### **Economic factors and Next Year's Budgets and Rates**

For the 2007/2008 school year the non-homestead millage will remain at 18.0000 mills. Levying the full amount on these properties is crucial, especially when the State foundation and categorical monies are constantly under scrutiny. This millage expires December 31, 2007, so it will be necessary for the district to prepare for a non-homestead millage campaign.

One of the most important factors affecting the budget is our student count. Unfortunately, it is difficult for School District's to know exactly how many students will show up and be counted on those two crucial pupil count days (September and February) of each school year. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The State of Michigan has not approved a State Aid Bill for next school year which establishes the foundation allowance per pupil.

The 2007/2008 budget was adopted based on the blended student count (75% of September 2007 students and 25% of February 2007 students) or 3,346 (which is 60 students lower than 2006/2007) and \$7,060 student foundation allowance. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations. The adopted budget and subsequent amendments must be posted on the district website, once board approved.

Under state law, the School District cannot assess additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Approximately 80 percent of total General Fund revenues are from the foundation allowance.

The School District is mandated by Michigan State statute to contribute to the Michigan Public School Employees Retirement System (MPERS) at a rate established by the State of Michigan. The rate set for 2007/2008 was reduced to 16.72% of our annual covered payroll (2006/2007 it was 17.74%). Healthcare costs continue to challenge the School District's budget. For 2007/2008 healthcare costs will be nearly 3.0 million dollars.

The administration has already contracted with a third party vendor for substitute teachers and for an administrator. The administration will continue to look at cost containment initiatives for 2007/2008 and for the future of the School District, in response to the State's financial crisis being passed down to local school districts.

### **Contacting the School District's Financial Management**

This financial report is designed to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Department, 212 N. Ottawa Street, Tecumseh, Michigan 49286.

## BASIC FINANCIAL STATEMENTS

## GOVERNMENT-WIDE FINANCIAL STATEMENTS

**TECUMSEH PUBLIC SCHOOLS**  
**Statement of Net Assets**  
**June 30, 2007**

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 3,383,560
Receivables	4,048,611
Prepaid items and other assets	507,538
Capital assets, net	<u>59,262,071</u>
<b>Total assets</b>	<u>67,201,780</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	5,763,001
Unearned revenue	84,341
Long-term debt:	
Due within one year	2,686,960
Due in more than one year	<u>53,294,188</u>
<b>Total liabilities</b>	<u>61,828,490</u>
<b>Net assets</b>	
Invested in capital assets, net of related debt	4,873,733
Restricted for capital projects and other purposes	536,800
Unrestricted (deficit)	<u>(37,243)</u>
<b>Total net assets</b>	<u><u>\$ 5,373,290</u></u>

The accompanying notes are an integral part of these financial statements.

# TECUMSEH PUBLIC SCHOOLS

## Statement of Activities For the Year Ended June 30, 2007

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental activities:				
Instruction	\$ 16,706,336	\$ 5,725	\$ 2,065,460	\$ (14,635,151)
Supporting services	8,905,476	21,069	43,608	(8,840,799)
Community service	307,474	66,910	-	(240,564)
Athletics	632,594	117,569	-	(515,025)
Food service	923,589	673,123	246,574	(3,892)
Interest on long-term debt	2,801,430	94,215	-	(2,707,215)
Unallocated depreciation	1,568,830	-	-	(1,568,830)
Total	<u>\$ 31,845,729</u>	<u>\$ 978,611</u>	<u>\$ 2,355,642</u>	<u>(28,511,476)</u>
General revenues:				
Property taxes				7,128,126
Unrestricted state aid				20,847,449
Grants and contributions not restricted to specific programs				101,458
Unrestricted investment earnings				<u>88,762</u>
Total general revenues				<u>28,165,795</u>
Change in net assets				(345,681)
Net assets, beginning of year				<u>5,718,971</u>
Net assets, end of year				<u>\$ 5,373,290</u>

The accompanying notes are an integral part of these financial statements.



## FUND FINANCIAL STATEMENTS

# TECUMSEH PUBLIC SCHOOLS

## Balance Sheet Governmental Funds June 30, 2007

<u>ASSETS</u>	<u>General</u>	<u>Nonmajor Funds</u>	<u>Totals</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 2,671,901	\$ 711,659	\$ 3,383,560
Accounts receivable	23,546	2,047	25,593
Due from other governments	3,830,337	192,681	4,023,018
Prepays	114,488	-	114,488
Inventory	210	17,533	17,743
	<hr/>	<hr/>	<hr/>
<b><u>TOTAL ASSETS</u></b>	<b><u>\$ 6,640,482</u></b>	<b><u>\$ 923,920</u></b>	<b><u>\$ 7,564,402</u></b>
 <b><u>LIABILITIES AND FUND BALANCES</u></b>			
<b>Liabilities</b>			
Accounts payable	\$ 204,745	\$ -	\$ 204,745
Salaries and retirement payable	2,535,194	9,673	2,544,867
Due to other governments	72,242	-	72,242
State aid note payable	2,047,222	-	2,047,222
Deferred revenue	99,307	179,993	279,300
	<hr/>	<hr/>	<hr/>
Total liabilities	4,958,710	189,666	5,148,376
	<hr/>	<hr/>	<hr/>
<b>Fund balances</b>			
Reserved for:			
Inventory	210	17,533	17,743
Prepays	114,488	-	114,488
Unreserved:			
Undesignated	1,567,074	-	1,567,074
Undesignated, reported in nonmajor:			
Special revenue funds	-	133,590	133,590
Debt service funds	-	197,454	197,454
Capital project funds	-	385,677	385,677
	<hr/>	<hr/>	<hr/>
Total fund balances	1,681,772	734,254	2,416,026
	<hr/>	<hr/>	<hr/>
<b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b>	<b><u>\$ 6,640,482</u></b>	<b><u>\$ 923,920</u></b>	<b><u>\$ 7,564,402</u></b>

The accompanying notes are an integral part of these financial statements.

**TECUMSEH PUBLIC SCHOOLS**  
**Reconciliation of Fund Balances on the Balance Sheet**  
**for Governmental Funds to Net Assets of**  
**Governmental Activities on the Statement of Net Assets**  
**June 30, 2007**

Fund balances - total governmental funds	\$ 2,416,026
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: capital assets	71,408,294
Deduct: accumulated depreciation	(12,146,223)
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.	
Add: deferred revenue for the Durant receivable from MDE	194,959
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Deduct: bonds payable	(54,807,306)
Add: unamortized bond issuance costs	375,307
Add: unamortized loss on refunding	2,596,562
Deduct: unamortized bond premium	(2,719,624)
Deduct: accrued interest on bonds payable	(893,925)
Deduct: compensated absences	(176,248)
Deduct: retirement incentives payable	(874,532)
Net assets of governmental activities	\$ <u>5,373,290</u>

The accompanying notes are an integral part of these financial statements.

**TECUMSEH PUBLIC SCHOOLS**  
**Statement of Revenue, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2007**

	<u>General</u>	<u>Nonmajor Funds</u>	<u>Totals</u>
<b>Revenue</b>			
Local sources	\$ 3,526,810	\$ 5,469,698	\$ 8,996,508
State sources	22,028,586	39,658	22,068,244
Federal sources	256,616	206,916	463,532
	<hr/>	<hr/>	<hr/>
Total revenue	25,812,012	5,716,272	31,528,284
	<hr/>	<hr/>	<hr/>
<b>Expenditures</b>			
Current:			
Education:			
Instruction	16,951,366	-	16,951,366
Supporting services	8,580,622	-	8,580,622
Athletics	-	632,594	632,594
Food service	-	923,589	923,589
Community services	101,230	206,244	307,474
Capital outlay	-	314,384	314,384
Debt service:			
Principal repayment	-	2,200,000	2,200,000
Interest and fiscal charges	-	2,587,536	2,587,536
	<hr/>	<hr/>	<hr/>
Total expenditures	25,633,218	6,864,347	32,497,565
	<hr/>	<hr/>	<hr/>
Revenue over (under) expenditures	178,794	(1,148,075)	(969,281)
	<hr/>	<hr/>	<hr/>
<b>Other financing sources (uses)</b>			
Proceeds from School Bond Loan Fund	-	255,934	255,934
Transfers in	36,737	895,439	932,176
Transfers out	(895,439)	(36,737)	(932,176)
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	(858,702)	1,114,636	255,934
	<hr/>	<hr/>	<hr/>
Change in fund balances	(679,908)	(33,439)	(713,347)
	<hr/>	<hr/>	<hr/>
Fund balances, beginning of year	2,361,680	767,693	3,129,373
	<hr/>	<hr/>	<hr/>
<b>Fund balances, end of year</b>	<u>\$ 1,681,772</u>	<u>\$ 734,254</u>	<u>\$ 2,416,026</u>

The accompanying notes are an integral part of these financial statements.

**TECUMSEH PUBLIC SCHOOLS**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Change in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended June 30, 2007**

Net change in fund balances - total governmental funds	\$ (713,347)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Deduct: depreciation expense	(1,568,830)
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The receipt of a long-term receivable represents revenue in the fund financial statements, but is reported as a reduction of the receivable in the statement of activities.

Deduct: payments received on long-term Durant receivables	(28,236)
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Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities	2,200,000
Deduct: proceeds from School Bond Loan Fund	(255,934)
Deduct: amortization of bond refunding loss	(112,894)
Add: amortization of bond premium	118,244
Deduct: amortization of bond issuance costs	(16,318)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct: increase in accrued interest payable on bonds	(202,926)
Deduct: increase in the accrual for compensated absences	(40,892)
Add: decrease in the accrual for retirement incentives	275,452

Change in net assets of governmental activities	\$ (345,681)
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The accompanying notes are an integral part of these financial statements.

**TECUMSEH PUBLIC SCHOOLS**  
**Statement of Revenue, Expenditures and**  
**Changes in Fund Balance - Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2007**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Over (Under) Final Budget</b>
<b>Revenue</b>				
Local sources:				
Property taxes	\$ 2,578,013	\$ 2,682,763	\$ 2,631,314	\$ (51,449)
ISD special education tax	400,000	547,271	699,551	152,280
Tuition	-	-	5,725	5,725
Earnings on investments and deposits	65,000	65,000	88,762	23,762
Other local revenues	41,898	97,928	101,458	3,530
Total revenue from local sources	<u>3,084,911</u>	<u>3,392,962</u>	<u>3,526,810</u>	<u>133,848</u>
State sources:				
State school aid - unrestricted	20,654,030	20,248,875	20,847,449	598,574
At risk	172,900	195,556	173,648	(21,908)
Special education	1,317,911	846,227	966,572	120,345
Durant settlement	28,236	28,236	28,236	-
Middle school math	-	39,235	1,760	(37,475)
Other state revenue	-	10,921	10,921	-
Total revenue from state sources	<u>22,173,077</u>	<u>21,369,050</u>	<u>22,028,586</u>	<u>659,536</u>
Federal sources	<u>179,315</u>	<u>254,082</u>	<u>256,616</u>	<u>2,534</u>
Total revenue	<u>25,437,303</u>	<u>25,016,094</u>	<u>25,812,012</u>	<u>795,918</u>
<b>Expenditures</b>				
Instruction:				
Basic Programs:				
Elementary	4,909,379	5,125,415	5,078,381	(47,034)
Middle/Junior High	4,258,415	4,235,102	4,322,193	87,091
High School	4,017,686	4,166,991	4,125,666	(41,325)
Added Needs:				
Special Education	2,680,884	2,832,012	2,865,770	33,758
At Risk	308,900	358,186	343,946	(14,240)
Adult Education	208,461	212,607	215,410	2,803
Total instruction	<u>16,383,725</u>	<u>16,930,313</u>	<u>16,951,366</u>	<u>21,053</u>

continued...

**TECUMSEH PUBLIC SCHOOLS**  
**Statement of Revenue, Expenditures and**  
**Changes in Fund Balance - Budget and Actual (Concluded)**  
**General Fund**  
**For the Year Ended June 30, 2007**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Over (Under) Final Budget</b>
Supporting Services:				
Pupil services:				
Guidance services	\$ 573,166	\$ 576,800	\$ 600,488	\$ 23,688
Health services	48,132	71,604	68,389	(3,215)
Other pupil services	102,030	111,649	115,964	4,315
Instructional staff:				
Improvement of instruction	96,116	112,033	108,956	(3,077)
Library/media	312,697	341,635	336,152	(5,483)
Supervision and direction	90,078	76,751	79,269	2,518
Technology assisted instruction	63,705	65,305	64,499	(806)
General administration:				
Board of Education	407,401	407,891	350,122	(57,769)
Executive administration	271,199	297,481	302,229	4,748
School administration	1,425,856	1,433,537	1,459,645	26,108
Central services:				
Pupil accounting	300	426	801	375
Human resources	146,097	147,992	112,993	(34,999)
Technology	749,934	756,937	744,995	(11,942)
Business services	490,061	554,032	550,541	(3,491)
Operations and maintenance	2,673,413	2,702,593	2,666,360	(36,233)
Transportation	1,022,580	1,000,125	991,038	(9,087)
Other supporting services	5,000	33,229	28,181	(5,048)
Total supporting services	<u>8,477,765</u>	<u>8,690,020</u>	<u>8,580,622</u>	<u>(109,398)</u>
Community services	<u>23,000</u>	<u>101,582</u>	<u>101,230</u>	<u>(352)</u>
Transfers to other districts	<u>60,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>24,944,490</u>	<u>25,721,915</u>	<u>25,633,218</u>	<u>(88,697)</u>
Revenue over (under) expenditures	<u>492,813</u>	<u>(705,821)</u>	<u>178,794</u>	<u>884,615</u>
<b>Other financing sources (uses)</b>				
Transfers in	30,001	30,001	36,737	6,736
Transfers out	<u>(622,240)</u>	<u>(904,205)</u>	<u>(895,439)</u>	<u>8,766</u>
Total other financing sources (uses)	<u>(592,239)</u>	<u>(874,204)</u>	<u>(858,702)</u>	<u>15,502</u>
Change in fund balance	(99,426)	(1,580,025)	(679,908)	900,117
Fund balance, beginning of year	<u>2,361,680</u>	<u>2,361,680</u>	<u>2,361,680</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><u>\$ 2,262,254</u></u>	<u><u>\$ 781,655</u></u>	<u><u>\$ 1,681,772</u></u>	<u><u>\$ 900,117</u></u>

The accompanying notes are an integral part of these financial statements.

**TECUMSEH PUBLIC SCHOOLS**  
**Statement of Fiduciary Net Assets**  
**All Fiduciary Funds**  
**June 30, 2007**

	<b>Private Purpose Trust Funds</b>	<b>Agency Fund</b>
	<hr/>	<hr/>
<b>Assets</b>		
Cash and cash equivalents	\$     113,746	<u><u>\$     187,807</u></u>
 <b>Liabilities</b>		
Due to student groups and activities	<hr/> -	<u><u>\$     187,807</u></u>
 <b>Net assets</b>		
Unrestricted	<u><u>\$     113,746</u></u>	

The accompanying notes are an integral part of these financial statements.



**TECUMSEH PUBLIC SCHOOLS**  
**Statement of Changes in Fiduciary Net Assets**  
**Private Purpose Trust Funds**  
**For the Year Ended June 30, 2007**

**Revenue**

Local sources:

Earnings on investments	\$ 6,972
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**Expenses**

Scholarships	-
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Change in net assets	6,972
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Net assets, beginning of year	106,774
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Net assets, end of year	\$ 113,746
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The accompanying notes are an integral part of these financial statements.

## NOTES to the FINANCIAL STATEMENTS

# TECUMSEH PUBLIC SCHOOLS

## Notes to the Financial Statements

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting entity

The Tecumseh Public Schools (the “District”) has followed the guidelines of the Governmental Accounting Standards Board’s Statement No. 14 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

#### B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended June 30, 2007.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

#### C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

# TECUMSEH PUBLIC SCHOOLS

## Notes to the Financial Statements

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Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes received and grant and interest revenue earned within the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Additionally, the District reports the following fund types:

The *special revenue funds* are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes, where there is a need to determine the results of operations.

The *debt service funds* are used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

The *capital projects funds* are used to account for the financial resources to be used for the acquisition or construction of major capital facilities improvements.

The *private purpose trust fund* accounts for contributions earmarked for scholarships available to qualifying students of the District.

The *agency fund* accounts for assets held for other groups and organizations and is custodial in nature.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

# TECUMSEH PUBLIC SCHOOLS

## Notes to the Financial Statements

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Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

### **D. Assets, liabilities and equity**

#### **1. Cash and cash equivalents/investments**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are reported at fair value.

#### **2. Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). There were no such interfund loans outstanding at June 30, 2007.

#### **3. Inventory**

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory in the General Fund and Food Service Funds consists of expendable supplies held for consumption. The cost is recorded as an expenditure when consumed rather than when purchased. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

#### **4. Capital assets**

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

# TECUMSEH PUBLIC SCHOOLS

## Notes to the Financial Statements

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Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	45
Vehicles	5-10
Equipment	5-20

### 5. *Compensated absences*

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay and 50 percent of sick leave are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

### 6. *Long-term obligations*

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received in debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual proceeds received, are reported as debt service expenditures.

### 7. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

# TECUMSEH PUBLIC SCHOOLS

## Notes to the Financial Statements

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### II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

#### A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The General and Special Revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted and as amended by the Board of Education. The budgets for the General and Special Revenue Funds are adopted on a functional basis.

#### B. Excess of expenditures over appropriations

Budget to actual comparisons for the General Fund are presented in the fund financial statements at the legal level of budgetary control.

### III. DETAILED NOTES ON ALL FUNDS

#### A. Deposits and investments

##### Statutory Authority

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets follows:

##### **Statement of Net Assets:**

Cash and cash equivalents	\$ 3,383,560
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##### **Statement of Fiduciary Net Assets:**

Private Purpose Trust Fund:	
Cash and cash equivalents	113,746

Agency Fund:	
Cash and cash equivalents	<u>187,807</u>

**\$ 3,685,113**

Bank deposits	<b><u>\$ 3,685,113</u></b>
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# TECUMSEH PUBLIC SCHOOLS

## Notes to the Financial Statements

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State statutes authorize the District to invest in:

- a. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- b. Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- c. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- d. Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- e. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- f. Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The District's investment policy allows for all of these types of investments.

### **Investment and deposit risk**

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the listing above. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the listing above. The District's investment policy does not have specific limits in excess of state law on investment credit risk.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$3,703,927 of the District's bank balance of \$3,903,927 was exposed to custodial credit risk because it was uninsured and uncollateralized.



# TECUMSEH PUBLIC SCHOOLS

## Notes to the Financial Statements

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*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in the listing above. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk.

### B. Receivables

Receivables as of year end for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>	<u>Amounts not Expected to be Collected Within One Year</u>
<b>Receivables:</b>				
Accounts	\$ 23,546	\$ 2,047	\$ 25,593	\$ -
Intergovernmental	3,802,101	25,958	3,828,059	-
Durant settlement	<u>28,236</u>	<u>166,723</u>	<u>194,959</u>	<u>166,723</u>
	<u><b>\$ 3,853,883</b></u>	<u><b>\$ 194,728</b></u>	<u><b>\$ 4,048,611</b></u>	<u><b>\$ 166,723</b></u>

# TECUMSEH PUBLIC SCHOOLS

## Notes to the Financial Statements

### C. Capital assets

Capital assets activity for the year ended June 30, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Capital assets not being depreciated:				
Land	\$ 1,590,511	\$ -	\$ -	\$ 1,590,511
Capital assets being depreciated:				
Buildings and improvements	68,735,017	-	-	68,735,017
Vehicles	286,449	-	-	286,449
Furniture and equipment	<u>796,317</u>	<u>-</u>	<u>-</u>	<u>796,317</u>
Total capital assets being depreciated	<u>69,817,783</u>	<u>-</u>	<u>-</u>	<u>69,817,783</u>
Less accumulated depreciation for:				
Building and improvements	9,957,843	1,486,928	-	11,444,771
Vehicles	173,115	25,694	-	198,809
Equipment	<u>446,435</u>	<u>56,208</u>	<u>-</u>	<u>502,643</u>
Total accumulated depreciation	<u>10,577,393</u>	<u>1,568,830</u>	<u>-</u>	<u>12,146,223</u>
Total capital assets being depreciated, net	<u>59,240,390</u>	<u>(1,568,830)</u>	<u>-</u>	<u>57,671,560</u>
<b>Governmental activities capital assets, net</b>	<b><u>\$60,830,901</u></b>	<b><u>\$(1,568,830)</u></b>	<b><u>\$ -</u></b>	<b><u>\$59,262,071</u></b>

Depreciation expense of \$1,568,830 was charged to the function "unallocated depreciation", and was not allocated to the other functions.

# TECUMSEH PUBLIC SCHOOLS

## Notes to the Financial Statements

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### D. Payables

Accounts payable and accrued liabilities as of year end for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	<u>General</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<b>Fund Financial Statements:</b>			
Accounts payable	\$ 204,745	\$ -	\$ 204,745
Salaries and retirement payable	2,535,194	9,673	2,544,867
Due to other governments	72,242	-	72,242
State aid note payable	<u>2,047,222</u>	<u>-</u>	<u>2,047,222</u>
	<b><u>\$4,859,403</u></b>	<b><u>\$ 9,673</u></b>	<b><u>4,869,076</u></b>
<b>District-Wide Financial Statements:</b>			
Accrued interest on long-term debt			<u>893,925</u>
			<b><u>\$ 5,763,001</u></b>

### E. Interfund transfers

For the year ended June 30, 2007, interfund transfers consisted of \$36,737 in transfers from non-major governmental funds to the General Fund and \$895,439 in transfers from the General Fund to non-major governmental funds.

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

# TECUMSEH PUBLIC SCHOOLS

## Notes to the Financial Statements

### F. Long-term debt

The following is a summary of bond, note, and compensated absence transactions of the District for the year ended June 30, 2007:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental activities</b>					
General obligation bonds	\$ 52,231,723	\$ -	\$ 2,200,000	\$ 50,031,723	\$ 2,275,000
Unamortized loss on bond refunding	(2,709,456)	-	(112,894)	(2,596,562)	(112,894)
Unamortized bond premium	2,837,868	-	118,244	2,719,624	118,244
School Bond Loan Fund	4,032,434	-	-	4,032,434	-
School Loan Revolving Fund	487,215	255,934	-	743,149	-
Retirement incentives	1,149,984	39,649	315,101	874,532	346,610
Compensated absences	135,356	99,553	58,661	176,248	60,000
	<u>\$ 58,165,124</u>	<u>\$ 395,136</u>	<u>\$ 2,579,112</u>	<u>\$ 55,981,148</u>	<u>\$ 2,686,960</u>

Bonds payable at June 30, 2007, are comprised of the following issues:

#### General Obligation Bonds:

\$33,000,000 1998 Building and Site Bonds, due in one annual installment of \$1,625,000 on May 1, 2008; interest at 4.30% to 5.00%	\$ 1,625,000
\$28,090,000 2000 Building and Site Bonds, due in annual installments of \$650,000 to \$725,000 through May 1, 2010; interest at 5.125% to 5.50%	2,050,000
\$46,190,000 2005 Refunding Bonds, due in annual installments of \$1,090,000 to \$3,070,000 through May 1, 2030; interest at 3.50% to 5.125%	46,190,000
* \$180,390 1998 Durant School Improvement Bonds, due in annual installments of \$15,714 to \$99,235 through 2013; interest at 4.8%	<u>166,723</u>

**Total General Obligation Bonds Payable** **\$ 50,031,723**

- \* The Durant School Improvement Bonds are serviced from funds made available to Michigan School Districts by an annual appropriation by the Michigan State Legislature. If the Legislature does not appropriate the funding required, the District is not liable to pay the debt service.

# TECUMSEH PUBLIC SCHOOLS

## Notes to the Financial Statements

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In 2005, the District issued \$46,190,000 of general obligation bonds to provide resources to refund \$24,225,000 of the 1998 Building and Site Bonds and \$22,790,000 of the 2000 Building and Site Bonds. The proceeds of the refunding were placed in an irrevocable trust to make future debt payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. At year end, defeased bonds outstanding consisted of \$24,225,000 of the 1998 Building and Site Bonds and \$22,790,000 of the 2000 Building and Site Bonds.

Compensated absences and retirement incentives are generally liquidated by the general fund.

Annual debt service requirements to maturity for general obligation bonds are as follows:

<b><u>Year Ended June 30,</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2008	\$ 2,275,000	\$ 2,453,126	\$ 4,728,126
2009	2,370,714	2,354,052	4,724,766
2010	2,501,462	2,259,910	4,761,372
2011	2,627,246	2,134,240	4,761,486
2012	2,743,066	2,015,732	4,758,798
2013-2017	15,194,235	7,935,926	23,130,161
2018-2022	13,360,000	4,085,440	17,445,440
2023-2027	5,660,000	1,705,527	7,365,527
2028-2030	<u>3,300,000</u>	<u>337,226</u>	<u>3,637,226</u>
<b>Totals</b>	<b><u>\$ 50,031,723</u></b>	<b><u>\$ 25,281,179</u></b>	<b><u>\$ 75,312,902</u></b>

# TECUMSEH PUBLIC SCHOOLS

## Notes to the Financial Statements

The School Bond Loan Fund and the School Loan Revolving Fund represent amounts borrowed from the State of Michigan School loan programs to supplement property tax revenue for making payments on the District's general obligation bonds. Although interest accrues each year, no payment is due until such time as the District's property tax revenue is sufficient to support the Debt Service requirements on the general obligation bonds. Changes for the year ended June 30, 2007, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<b>School Bond Loan Fund</b>			
Beginning balance	\$ 4,032,434	\$ 250,782	\$ 4,283,216
Additions	-	203,304	203,304
<b>Ending balance</b>	<b><u>\$ 4,032,434</u></b>	<b><u>\$ 454,086</u></b>	<b><u>\$ 4,486,520</u></b>
<b>School Loan Revolving Loan</b>			
Beginning balance	\$ 487,215	\$ 4,440	\$ 491,655
Additions	255,934	26,545	282,479
<b>Ending balance</b>	<b><u>\$ 743,149</u></b>	<b><u>\$ 30,985</u></b>	<b><u>\$ 774,134</u></b>

### G. State Aid Anticipation Note

During the year, the District financed some of its operations through the issuance of property tax and State Aid Anticipation Notes. These notes were issued for terms of less than one year, and accordingly, are recorded as liabilities of the respective funds from which they were issued. Short-term notes outstanding as of June 30, 2007, were comprised of the following:

#### General Fund:

State Aid Anticipation Notes, interest at 4.25% due 8/20/07:

Beginning balance	\$ 1,486,048
Additions	2,047,222
Reductions	1,486,048
<b>Ending balance</b>	<b><u>\$ 2,047,222</u></b>

## IV. OTHER INFORMATION

### A. Risk management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance for general liability, property and casualty and health claims and participates in the MASB/SET-SEG (risk pool) for claims relating to employee injuries/workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

# TECUMSEH PUBLIC SCHOOLS

## Notes to the Financial Statements

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The shared-risk pool program in which the District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

### **B. Property taxes**

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of December 1 of the following year. Taxes are levied on July 1 and are due on September 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied to the extent that they result in current receivables (collected within sixty days after year end). Amounts received subsequent to August 31 are recognized as revenue when collected.

### **C. Defined benefit pension plan**

#### **Plan Description**

The Tecumseh Public Schools contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions are established and must be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

#### **Funding Policy**

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The Tecumseh Public Schools is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The current rate is 17.74% of annual covered payroll. The contribution requirements of plan members and the Tecumseh Public Schools are established by Michigan State statute and may be amended only by action of the State Legislature. The School District's contributions to MPERS for the years ended June 30, 2007, 2006 and 2005 were \$2,510,405, \$2,257,370 and \$1,959,057 respectively, equal to the required contributions for each year.

# TECUMSEH PUBLIC SCHOOLS

## Notes to the Financial Statements

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During the year ended June 30, 2007, the State of Michigan Office of Retirement Systems issued a credit to all school districts participating in MPSERS. The District's share of this credit was \$372,458.

### **Other Postemployment Benefits**

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

### **D. Subsequent Event**

On August 20, 2007, the District issued a State Aid Anticipation Note in the amount of \$1,700,000.

\* \* \* \* \*



COMBINING AND INDIVIDUAL FUND  
FINANCIAL STATEMENTS

**TECUMSEH PUBLIC SCHOOLS**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2007**

<u>ASSETS</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Totals</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 128,528	\$ 197,454	\$ 385,677	\$ 711,659
Accounts receivable	2,047	-	-	2,047
Due from other governments	25,958	166,723	-	192,681
Inventory	17,533	-	-	17,533
	<u>17,533</u>	<u>-</u>	<u>-</u>	<u>17,533</u>
<b><u>TOTAL ASSETS</u></b>	<b><u>\$ 174,066</u></b>	<b><u>\$ 364,177</u></b>	<b><u>\$ 385,677</u></b>	<b><u>\$ 923,920</u></b>
 <b><u>LIABILITIES AND FUND BALANCES</u></b>				
<b>Liabilities</b>				
Salaries and retirement payable	\$ 9,673	\$ -	\$ -	\$ 9,673
Deferred revenue	13,270	166,723	-	179,993
	<u>13,270</u>	<u>166,723</u>	<u>-</u>	<u>179,993</u>
Total liabilities	22,943	166,723	-	189,666
	<u>22,943</u>	<u>166,723</u>	<u>-</u>	<u>189,666</u>
<b>Fund balances</b>				
Reserved for:				
Inventory	17,533	-	-	17,533
Unreserved, undesignated	133,590	197,454	385,677	716,721
	<u>133,590</u>	<u>197,454</u>	<u>385,677</u>	<u>716,721</u>
Total fund balances	151,123	197,454	385,677	734,254
	<u>151,123</u>	<u>197,454</u>	<u>385,677</u>	<u>734,254</u>
<b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b>	<b><u>\$ 174,066</u></b>	<b><u>\$ 364,177</u></b>	<b><u>\$ 385,677</u></b>	<b><u>\$ 923,920</u></b>

**TECUMSEH PUBLIC SCHOOLS**  
**Combining Statement of Revenue, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2007**

	<b>Special Revenue</b>	<b>Debt Service</b>	<b>Capital Projects</b>	<b>Totals</b>
<b>Revenue</b>				
Local sources	\$ 857,602	\$ 4,591,027	\$ 21,069	\$ 5,469,698
State sources	39,658	-	-	39,658
Federal sources	206,916	-	-	206,916
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenue	1,104,176	4,591,027	21,069	5,716,272
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Expenditures</b>				
Current:				
Athletics	632,594	-	-	632,594
Food service	923,589	-	-	923,589
Community services	206,244	-	-	206,244
Capital outlay	-	-	314,384	314,384
Debt service:				
Principal repayment	-	2,200,000	-	2,200,000
Interest and fiscal charges	-	2,587,536	-	2,587,536
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	1,762,427	4,787,536	314,384	6,864,347
	<hr/>	<hr/>	<hr/>	<hr/>
Revenue under expenditures	(658,251)	(196,509)	(293,315)	(1,148,075)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Other financing sources (uses)</b>				
Proceeds from School Bond Loan Fund	-	255,934	-	255,934
Transfers in	645,439	-	250,000	895,439
Transfers out	(36,737)	-	-	(36,737)
	<hr/>	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	608,702	255,934	250,000	1,114,636
	<hr/>	<hr/>	<hr/>	<hr/>
Change in fund balances	(49,549)	59,425	(43,315)	(33,439)
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balances, beginning of year	200,672	138,029	428,992	767,693
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Fund balances, end of year</b>	<u>\$ 151,123</u>	<u>\$ 197,454</u>	<u>\$ 385,677</u>	<u>\$ 734,254</u>

**TECUMSEH PUBLIC SCHOOLS**  
**Nonmajor Special Revenue Funds**  
**Combining Balance Sheet**  
**June 30, 2007**

	<u>Athletics</u>	<u>Food Service</u>	<u>Community Services</u>	<u>Total</u>
<b><u>ASSETS</u></b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 5,961	\$ 118,891	\$ 3,676	\$ 128,528
Accounts receivable	21	2,026	-	2,047
Due from other governments	-	25,958	-	25,958
Inventory	-	17,533	-	17,533
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b><u>TOTAL ASSETS</u></b>	<u>\$ 5,982</u>	<u>\$ 164,408</u>	<u>\$ 3,676</u>	<u>\$ 174,066</u>
 <b><u>LIABILITIES AND FUND BALANCES</u></b>				
<b>Liabilities</b>				
Salaries and retirement payable	\$ 5,982	\$ 15	\$ 3,676	\$ 9,673
Deferred revenue	-	13,270	-	13,270
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	<u>5,982</u>	<u>13,285</u>	<u>3,676</u>	<u>22,943</u>
<b>Fund balances</b>				
Reserved for inventory	-	17,533	-	17,533
Unreserved, undesignated	-	133,590	-	133,590
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total fund balances	<u>-</u>	<u>151,123</u>	<u>-</u>	<u>151,123</u>
<b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b>	<u>\$ 5,982</u>	<u>\$ 164,408</u>	<u>\$ 3,676</u>	<u>\$ 174,066</u>

**TECUMSEH PUBLIC SCHOOLS**  
**Nonmajor Special Revenue Funds**  
**Combining Statement of Revenue, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2007**

	<u>Athletics</u>	<u>Food Service</u>	<u>Community Services</u>	<u>Total</u>
<b>Revenue</b>				
Local sources	\$ 117,569	\$ 673,123	\$ 66,910	\$ 857,602
State sources	-	39,658	-	39,658
Federal sources	-	206,916	-	206,916
	<u>117,569</u>	<u>919,697</u>	<u>66,910</u>	<u>1,104,176</u>
<b>Expenditures</b>				
Athletics	632,594	-	-	632,594
Food service	-	923,589	-	923,589
Community services	-	-	206,244	206,244
	<u>632,594</u>	<u>923,589</u>	<u>206,244</u>	<u>1,762,427</u>
Revenue under expenditures	<u>(515,025)</u>	<u>(3,892)</u>	<u>(139,334)</u>	<u>(658,251)</u>
<b>Other financing sources (uses)</b>				
Transfers in	512,213	-	133,226	645,439
Transfers out	-	(36,737)	-	(36,737)
	<u>512,213</u>	<u>(36,737)</u>	<u>133,226</u>	<u>608,702</u>
Change in fund balances	(2,812)	(40,629)	(6,108)	(49,549)
Fund balances, beginning of year	<u>2,812</u>	<u>191,752</u>	<u>6,108</u>	<u>200,672</u>
<b>Fund balances, end of year</b>	<u>\$ -</u>	<u>\$ 151,123</u>	<u>\$ -</u>	<u>\$ 151,123</u>

**TECUMSEH PUBLIC SCHOOLS**  
**Nonmajor Debt Service Funds**  
**Combining Balance Sheet**  
**June 30, 2007**

	<b>Durant Debt</b>	<b>2005 Debt</b>	<b>2000 Debt</b>	<b>1998 Debt</b>	<b>Total</b>
<b><u>ASSETS</u></b>					
<b>Assets</b>					
Cash and cash equivalents	\$ -	\$ 95,246	\$ 31,230	\$ 70,978	\$ 197,454
Due from other governments	<u>166,723</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>166,723</u>
<b><u>TOTAL ASSETS</u></b>	<b><u>\$ 166,723</u></b>	<b><u>\$ 95,246</u></b>	<b><u>\$ 31,230</u></b>	<b><u>\$ 70,978</u></b>	<b><u>\$ 364,177</u></b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>					
<b>Liabilities</b>					
Deferred revenue	\$ 166,723	\$ -	\$ -	\$ -	\$ 166,723
<b>Fund balances</b>					
Unreserved, undesignated	<u>-</u>	<u>95,246</u>	<u>31,230</u>	<u>70,978</u>	<u>197,454</u>
<b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b>	<b><u>\$ 166,723</u></b>	<b><u>\$ 95,246</u></b>	<b><u>\$ 31,230</u></b>	<b><u>\$ 70,978</u></b>	<b><u>\$ 364,177</u></b>

**TECUMSEH PUBLIC SCHOOLS**  
**Nonmajor Debt Service Funds**  
**Combining Statement of Revenue, Expenditures and**  
**Changes in Fund Balances**  
**For the Year Ended June 30, 2007**

	<u>Durant Debt</u>	<u>2005 Debt</u>	<u>2000 Debt</u>	<u>1998 Debt</u>	<u>Total</u>
<b>Revenue</b>					
Local sources:					
Property taxes	\$ -	\$ 2,202,622	\$ 720,055	\$ 1,574,135	\$ 4,496,812
Interest revenue	-	32,286	18,778	43,151	94,215
	<u>-</u>	<u>2,234,908</u>	<u>738,833</u>	<u>1,617,286</u>	<u>4,591,027</u>
<b>Expenditures</b>					
Debt Service:					
Principal	-	-	650,000	1,550,000	2,200,000
Interest	-	2,284,187	152,097	151,252	2,587,536
	<u>-</u>	<u>2,284,187</u>	<u>802,097</u>	<u>1,701,252</u>	<u>4,787,536</u>
Total expenditures	-	2,284,187	802,097	1,701,252	4,787,536
Revenue under expenditures	-	(49,279)	(63,264)	(83,966)	(196,509)
<b>Other financing sources</b>					
Proceeds from School Bond Loan Fund	-	89,000	68,000	98,934	255,934
Change in fund balances	-	39,721	4,736	14,968	59,425
Fund balances, beginning of year	-	55,525	26,494	56,010	138,029
<b>Fund balances, end of year</b>	<u>\$ -</u>	<u>\$ 95,246</u>	<u>\$ 31,230</u>	<u>\$ 70,978</u>	<u>\$ 197,454</u>



**REHMANN ROBSON**

*Certified Public Accountants*

*A member of* **THE REHMANN GROUP**

 *an independent member of*  
**BAKER TILLY**  
INTERNATIONAL

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

September 18, 2007

Board of Education  
Tecumseh Public Schools  
Tecumseh, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **TECUMSEH PUBLIC SCHOOLS**, as of and for the year ended June 30, 2007, and have issued our report thereon dated September 18, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Tecumseh Public Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting.



A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Tecumseh Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standard*.

We noted certain matters that we reported to the management of Tecumseh Public Schools in a separate letter dated September 18, 2007.

This report is intended solely for the information and use of the Board of Education, management, others in the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP



September 18, 2007

To the Board of Education of  
Tecumseh Public Schools  
Tecumseh, Michigan

We have audited the financial statements of Tecumseh Public Schools for the year ended June 30, 2007, and have issued our report thereon dated September 18, 2007. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards**

As stated in our engagement letter dated June 7, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Tecumseh Public Schools. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Tecumseh Public Schools' compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

**Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by Tecumseh Public Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Tecumseh Public Schools during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Tecumseh Public Schools' financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by Tecumseh Public Schools, either individually or in the aggregate, indicate matters that could have a significant effect on Tecumseh Public Schools' financial reporting process.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Tecumseh Public Schools' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Difficulties Encountered in Performing the Audit**

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L' and 'J'.

**Tecumseh Public Schools**  
**Comments and Recommendations**  
**For the Year Ended June 30, 2007**

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In planning and performing our audit of the financial statements of Tecumseh Public Schools as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the 's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 's internal control. Accordingly, we do not express an opinion on the effectiveness of the Districts' internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

**Other Matters**

**Cash Receipts at Decentralized Locations**

The Districts receives most of its revenue at its administrative offices. However, funds are also collected at decentralized locations including each of its school buildings. During our review of the District's internal control policies and procedures, we noted that the District did not utilize pre-numbered receipts. We recommend that the District use pre-numbered, three-part receipts at each decentralized location. A copy of each receipt should be given to the payor, a copy should remain in the receipt book, and a copy should be sent with the deposit to the business office. The receipts should be reconciled with the deposit and the sequential numbering of receipts should be monitored by business office personnel. In addition, all cash receipts should be kept in a secure location until deposited to prevent theft.

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